

TRANSCRIPT

LEGISLATIVE ASSEMBLY ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Commonwealth support for Victoria

Melbourne—Wednesday, 15 December 2021

MEMBERS

Mr John Eren—Chair

Mr Gary Blackwood—Deputy Chair

Ms Juliana Addison

Ms Christine Couzens

Ms Steph Ryan

Ms Kat Theophanous

Mr Nick Wakeling

WITNESSES (*via videoconference*)

Mr Xavier Boffa, Executive Director, and

Mr Thomas Rowe, Research Associate, The Samuel Griffith Society.

The CHAIR: Thank you to both Xavier and Thomas for being here this morning for the Legislative Assembly Economy and Infrastructure Committee Inquiry into Commonwealth support for Victoria. All mobile telephones should now be turned to silent.

All evidence taken by this Committee is protected by parliamentary privilege. Therefore you are protected against any action for what you say here today, but if you repeat the same things outside this hearing, including on social media, those comments may not be protected by this privilege.

All evidence given today is being recorded by Hansard. You will be provided with a proof version of the transcript for you to check. Transcripts will ultimately be made public and posted on the Committee's website. Could I also remind members and witnesses to mute their microphones when not speaking, to minimise interference.

Can I just ask you to make a brief 10-minute opening statement, which will be followed by questions from the Committee. Thank you for being with us this morning.

Mr BOFFA: Thank you, Chair. I would like to thank all the members of the Committee for this invitation, which the Society is very grateful to accept in order to have the opportunity to make some submissions before this very important inquiry. Thomas and I are delighted to be here.

My name is Xavier Boffa, and I am the Executive Director of The Samuel Griffith Society. By way of introduction and background, the Society was first incorporated in 1992, and our primary mission is to raise awareness of a range of constitutional issues in Australia relating to federalism and our system of government. I am joined today by Thomas Rowe, who is one of the Society's research associates and whose support in preparing our submission for this inquiry has been invaluable.

The Society is a non-partisan organisation. We arrange conferences to discuss a range of issues. Speakers at our most recent conference included former Premier of Victoria John Brumby and former Governor Alex Chernov. So that, I suppose, places in context our submission. It is not a partisan submission, but the Society obviously has some strong views about the current distribution of the GST and other economic and fiscal arrangements in the federation.

I will not go into too much detail about our submission—I am sure members have had an opportunity to review it—but the overarching message that we would like to convey is that the expiration or continuation of the current transitional arrangements for the distribution of the GST and other changes that might be contemplated to the system of GST distribution really are tweaks around the edges that do not address the core underlying issue, which we say is the overarching policy of horizontal fiscal equalisation, which has over its life produced a number of inefficiencies in the system and also disadvantaged states like Victoria on a consistent basis.

So what we argue is that the policy of HFE really is the issue that needs to be addressed in a more substantive way, and we are encouraging more bold reform because we think that that policy itself cannot be fixed with minor tweaks such as the transitional arrangements that have been in place recently or other similar arrangements. Ultimately, however, we also believe that in the longer term there is the broader issue of the vertical fiscal imbalance between the commonwealth and the states that really needs to be addressed in order to fix the underlying issues of interest here, because the states, although they are responsible for the large bulk of service delivery, are highly dependent on the commonwealth for funding. I think it is fair to say our view is that it is not ideal, in terms of efficiencies and also from a policy standpoint. So thank you, Chair.

The CHAIR: Thank you, Xavier. I might kick off the questions. So what would you recommend? What changes to the 2018 GST reform should the Victorian Government be seeking?

Mr BOFFA: Ultimately the Society's view on the GST is that states should be allowed to keep the money that they raise from the GST system. Victoria is in a relatively unique situation where it has never received a dollar back for every dollar it has contributed to the GST. At the moment it is doing slightly better, around 90 cents in the dollar, but ultimately what that means for Victorian taxpayers is that Victorians are paying more and more for services but not seeing significant advances by way of return for that investment in services, because Victorian taxpayer dollars are going to fund service delivery in other states.

So ultimately what we suggest is that the Victorian Government advocate for a policy of dollar-for-dollar distribution of the GST. Now, we recognise that this is a fairly significant proposal and that there might be gaps that emerge for some of the other states in the federation in terms of what that means for their revenue and their funding of service delivery, but we say that the Commonwealth should step in to fill those gaps through grants, and we note that, in terms of Commonwealth funding for the states, the GST forms only about half on average—and certainly that is the case in Victoria—of that Commonwealth funding. So we say that the more appropriate avenue for addressing those service delivery gaps is through Commonwealth grants funding.

The CHAIR: Thank you for that. Gary, do you have a question?

Mr BLACKWOOD: Yes. Thanks, John, and thanks, Xavier and Thomas. Xavier, you mentioned in your submission that the states should be allowed to take back responsibility for certain areas of taxation. Can you give us an idea of what areas that would include?

Mr BOFFA: Thank you, Deputy Chair. Certainly the Society's broader vision is that the states should be empowered to take back more responsibility for a broader range of taxation, because we see a situation at the moment where the states are, as I said before, heavily reliant on the Commonwealth and there is some inefficiency in the system there where the Commonwealth will raise revenue and then distribute it back to the states almost directly. So we are not advocating for a return to, say, a pre-1942 situation in terms of the states raising their own income tax and the Commonwealth raising much less. But what we do say is that at the moment the Commonwealth really is, I think, covering the field in a lot of areas of taxation in a way that was not intended by our founders in the lead-up to Federation in 1901 and not contemplated within the federal compact under the Constitution. So we believe that there is space for the Commonwealth to step back from some of those areas to create some space for the states.

I think the now Premier of New South Wales has made some interesting contributions on the possibility of a further conversation between the states about income tax, but certainly we are not saying that there should be a return to pre-1942. But I think the Victorian Government should look seriously at being part of that conversation. In terms of specifically the issue of duties and excises, I think we are seeing in Australia some overlap between the GST and the imposition of duties on transfer of land, for example, and other goods and other financial services products that we believe creates some uncertainty in terms of the division of Commonwealth and state responsibilities. We think that the Victorian Government should, in the process of the federation reform renewal process that is ongoing at the moment, raise these issues and seek to create some greater clarity around the division of those responsibilities.

Mr BLACKWOOD: Thanks, Xavier.

The CHAIR: Thank you. Kat, do you have a question?

Ms THEOPHANOUS: Thank you, Chair. And thank you, Xavier, for your submission. My question is around horizontal fiscal equalisation, and the submission's criticisms of it are in relation to it sort of creating a perverse incentive for state governments to avoid policies that might improve their economic position. Can you elucidate that a little bit further, and have you got any evidence to substantiate that that is happening?

Mr BOFFA: Thank you, Ms Theophanous. Certainly our submission is that the policy of HFE allows states that might be underperforming or not fully taking advantage of their economic advantages to cover in those gaps or have those gaps filled in by the redistribution of GST revenue. For example, states that are resource rich have less of an incentive to fully develop those resources, because doing so will affect the Commonwealth Grants Commission's assessment of their fiscal capacity. Certainly in Western Australia that has been an issue where, because of their resources boom, they have had a negative impact on their GST relativity, and for states like Victoria, which are also quite resource rich, there is a disincentive perhaps to incentivise new exploration and development of those resources, because should that occur the resulting increase in royalties that a state government might collect would be offset by a reduction under the current policy of HFE in its share of the GST distribution.

Now, we acknowledge this is an area in which there needs to be more research, and we think that there is a role for government to play there. I think this is something that, for instance, the Department of Treasury and Finance could do some more work in looking at these costs. Certainly for our organisation some of that primary research is beyond our capacity. But I think it is an area in which we need more evidence.

Ms THEOPHANOUS: Thank you.

The CHAIR: Thank you. Nick, did you have a question?

Mr WAKELING: Thank you, Chair. Xavier and Thomas, thank you very much for presenting today. I just want to sort of build on the questions that Kat and others have asked. Obviously everyone would love to see the day when Victoria got its dollar back for every dollar it handed over, but I suppose the real question is: is there that capacity that you raised before for the Federal Government to effectively acquit the shortfalls of those other smaller states—particularly the Northern Territory and others—to provide for the level of income that they are currently receiving? And is that going to financially impact on the federal budget, meaning would they have to increase existing federal taxes and charges in order to cover that shortfall?

Mr BOFFA: Thank you for the question. It is obviously one of the key questions. The short answer is we have not had the capacity to do detailed financial modelling of those scenarios. That is something which we think is an area in which there is capacity or scope for further research. But in terms of the issue, I think the first thing I would say is the states where a dollar-for-dollar distribution would make the most impact represent a very small share of the current GST redistribution. For instance, you mentioned the Northern Territory, which accounts for 4.5 percent—the ACT accounts for less than 2 per cent, Tasmania 4 per cent. Those would be the states that we say would be the most in need of some additional Commonwealth grants funding to cover a shortfall produced by a change to the distribution of the GST.

That is a small proportion of the overall pie, if you will, so for that reason we think that some readjustment to the distribution of Commonwealth grants would be a reasonable solution to this issue, even if that means that states such as New South Wales and Victoria might see less in the way of Commonwealth grants to adjust for additional grants for some of the other states. We say that that still would be a better position than today because at the very least what it would do is give greater agency to states such as Victoria and New South Wales to take greater control of their policy environment and incentivise them to introduce productivity-enhancing reforms to stimulate consumption in their own local economies, because they will have greater incentives because they will see more return for those reforms by way of the GST distribution. So even if in terms of Commonwealth funding for states the overall amount does not change, just changing the balance in terms of the GST versus grants, we say, would have a productivity-enhancing effect.

Mr WAKELING: Thanks very much.

The CHAIR: Thank you very much. Just as a follow-on from that, obviously the Commonwealth Grants Commission has a big role in all of this, and the question that I would ask is: can they improve their own methodologies in terms of assessing states' GST distribution? What role can they play, or are they limited by certain terms of reference that they are given?

Mr BOFFA: Thank you, Chair. Certainly the role of the Commonwealth Grants Commission in the current system, applying the policy of horizontal fiscal equalisation, is an unenviable one, I think it is fair to say. It is a very challenging task that they have been given. On one hand is the concept of contemporaneity and on the other hand is ensuring that they have good and accurate data, and I think it is very challenging. I think that highlights why the current system is fundamentally flawed, because even the best intentions and the best minds on the job have got to deal with those competing tensions, and fluctuations in resource prices, for example, can have a huge impact. When you are required to assess states' fiscal capacity on a year-on-year basis and adjust GST relativities accordingly, even a short lag time can produce significant distortions in the GST distribution.

That is part of the reason why we say that the policy of HFE is not working and is perhaps not workable. Because I think even changes to the grants commission's methodology, tweaks to that methodology, to address things like fluctuating minerals prices will not fundamentally solve that tension between ensuring that there is a system or a methodology informed by strong data but also that it is operating effectively in real time. In our view it is not really possible for that to occur.

The CHAIR: Thank you very much. Any further questions from members? No? Anything further that you wanted to add, Xavier or Thomas?

Mr BOFFA: No, thank you, Chair.

The CHAIR: Thank you very much for your submission and presentation today. It is very much appreciated. Thank you.

Mr BOFFA: Thanks.

Mr ROWE: Thank you.

Witnesses withdrew.

Witnesses withdrew.